

Statement of
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Before the
Postal Regulatory Commission

Hearing on
Fulfilling the Postal Regulatory Commission's Responsibilities
Under the Postal Accountability and Enhancement Act of 2006

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Good afternoon, Chairman Blair and Commissioners. My name is Paul Misener. I am Amazon.com's Vice President for Global Public Policy. Thank you very much for inviting me to testify today on this important matter.

Mr. Chairman, the Postal Accountability and Enhancement Act, signed into law less than a year ago, provides tremendous opportunities for the U.S. Postal Service and Amazon.com to better serve our shared consumer-customers. Amazon recognizes and appreciates that in this law Congress delegated important responsibilities to the Postal Regulatory Commission to establish the framework for these opportunities. We are both pleased and honored to help the Commission meet its responsibilities any way we can.

Before I suggest ways in which the Commission might transform the Act's vision into a reality of improved service for American consumers, please allow me to describe Amazon.com and how it currently uses the mail.

Mr. Chairman, Amazon.com opened its virtual doors on the World Wide Web twelve years ago this month. We seek to be Earth's most customer-centric company, where consumers can find and discover anything they might want to buy online. We also endeavor to offer our customers the lowest possible prices.

In addition to the Amazon.com website, we operate separate sites in the UK, Germany, Japan, France, and Canada. And just last month we strengthened our presence in China by launching a co-branded retail site there called Joyo/Amazon. Although we provide our buyer customers a variety of new services and digital goods, the bulk of our sales remain physical products. Our current selection includes 41 different categories ranging from books to electronics and sporting goods to grocery items.

Worldwide, we have over 66 million active customer accounts. For calendar year 2006, Amazon's net sales were over ten billion dollars, up 26% from 2005. And revenue for the first quarter of 2007 grew 32% year over year to over three billion dollars. Roughly half of our revenue is from sales in North America, so improving delivery to our customers in the United States remains a top priority.

In 2002, Amazon introduced "Super Saver Shipping" in the U.S. Customers who place qualifying orders of \$25 or more are eligible for this permanent website offer which provides free delivery. Then, about two years ago, we launched a shipping subscription program called, "Amazon Prime," under which customers pay an annual fee of \$79 in

exchange for unlimited free two-day shipping on many products. As we announced in late April, Amazon Prime use continues to grow as a percentage of overall units shipped.

Mr. Chairman, Amazon.com faces delivery challenges in every country where we have customers. In China, for example, limited last mile options and the rarity of consumer credit has led Joyo/Amazon to establish and operate a large fleet of bicycle messengers that now provide COD service to over 300 cities, including Beijing, Shanghai, and Guangzhou.

In the United States, Amazon fulfills orders using the USPS as well as other delivery companies, which often rely on the mail for last mile service. We select among delivery channels based on our customers' preferences, prices, and service quality.

As Amazon.com's business has grown over the past dozen years, so has the strength and extent of our partnership and interactions with the USPS. We have more than a dozen fulfillment centers located throughout the United States, each of which is serviced to some extent by the Postal Service. Amazon currently uses several subclasses of mail, including BPM, Media, Priority, Parcel Select, and Standard, and our dollar spending on postage was nine figures in 2006.

Mr. Chairman, on behalf of our consumer-customers, we wish to seek creative ways to enhance our cooperation with the USPS. And, if we succeed, we envision near-

and long-term growth in our use of this delivery channel, not just as our business grows, but also as an increasing percentage of that business.

In particular, we envision performing even more upstream work and being recognized by the Postal Service with lower rates that correspond only to the costs we impose on its network. We would like the USPS to create services and products that are not currently available, such as guaranteed next day and second day package delivery. Moreover, as envisioned in the increased pricing flexibility authorized in the 2006 Act, we would like to work with the Service to develop contract rates for competitive products and enter one or more Negotiated Service Agreements for market dominant products.

Of course, Mr. Chairman, the Commission's regulations, especially those pertaining to contract rates and NSAs, will play the crucial role in determining whether the vision of the Act ultimately will be realized. Amazon believes that these regulations should afford the Postal Service more flexibility and independence to negotiate with its shipper customers, both on the market dominant and competitive sides of its product lines, and with respect to performance as well as price.

We also respectfully recommend that the Commission resist the temptation to micromanage particular deals, especially on the market dominant side. Because the 2006 Act severed the cost of service framework, the USPS now has great incentive to protect its interests in these deals and there is much less chance that losses from a bad deal would be covered by customers for other market dominant products.

In sum, Mr. Chairman and Commissioners, Amazon.com is very grateful to be given the opportunity to testify before you today, and we look forward to working with the Commission in the coming months to develop regulations that will serve the interests of major shippers, the Postal Service, and most importantly, our shared consumer-customers. If the Commission's regulations provide sufficient business flexibility to the USPS, we believe the farsighted vision of the 2006 Act will become reality and the future of the mail will be very bright.

Thank you.

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